

# JOHNSON MEMORIAL HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Johnson Memorial Hospital  
Franklin, Indiana

We have audited the accompanying combined balance sheets of Johnson Memorial Hospital (Hospital) as of December 31, 2007 and 2006 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above, present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2007 and 2006, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages i through vii is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Blue & Co., LLC*

April 15, 2008

# JOHNSON MEMORIAL HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

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This section of Johnson Memorial Hospital's (Hospital) annual combined financial statements presents background information and management's discussion and analysis of the Hospital's financial performance during the year ended December 31, 2007. This MD&A also includes an analysis of the activities and results of the Johnson County Health Foundation (blended component unit).

This MD&A should read together with the combined financial statements included in this report.

### FINANCIAL HIGHLIGHTS

- The Hospital's net assets increased by \$2.35 million, and include operating income of \$700,000 in 2007.
- The Hospital's total operating revenue increased by .5% to \$74.7 million while expenses increased by 2.2% to \$74.03 million. The resulting income from operations of \$700,000 represents a decrease of 64% from 2006 operations.
- The Hospital's total non-operating revenue increased from a gain of \$1.46 million in 2006 to a gain of \$1.59 million in 2007.
- There was a new issuance of long-term debt in 2007 in the amount of \$6 million with only \$2.7 million drawn down as of December 31, 2007. The purpose of this funding was to finance a major portion of the private room bed renovation project.

### FINANCIAL STATEMENTS

The Hospital's combined financial statements consist of three statements - a Balance Sheet; a Statement of Operations and Changes in Net Assets; and a Statement of Cash Flows. The Balance Sheet includes all of the Hospital's assets and liabilities, including assets held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation. The Balance Sheet provides a basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. The Statement of Operations of Changes in Net Assets includes all revenues and expenses of the Hospital. This statement measures the financial results of the Hospital's operations and presents revenue earned and expenses incurred. The Statement of Cash Flows provides information about the Hospital's cash flows from operating activities, capital and related financing activities, and investing activities, and provides information on the sources and uses of cash during the year.

# JOHNSON MEMORIAL HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

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### FINANCIAL ANALYSIS

The Balance Sheet and the Statement of Operations and Changes in Net Assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and its changes. Increases or decreases in the Hospital's net assets are one indicator of whether its financial position is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth (including uninsured or medically indigent individuals and families), and new or changed governmental legislation should also be considered.

A summary of the Hospital's Balance Sheets as of December 31, 2007 and 2006 is presented below (in thousands):

	2007	2006	\$ Change	% Change
Cash and investments	\$ 34,731	\$ 28,297	\$ 6,434	22.7%
Capital assets	41,639	39,591	2,048	5.2%
Other assets	17,687	20,289	(2,602)	-12.8%
Total assets	<u>\$ 94,057</u>	<u>\$ 88,177</u>	<u>\$ 5,880</u>	6.7%
Current and other liabilities	\$ 9,372	\$ 7,690	\$ 1,682	21.9%
Long term debt	4,293	2,442	1,851	75.8%
Total liabilities	13,665	10,132	3,533	34.9%
Net assets				
Invested in capital assets, net of related debt	36,237	36,167	70	0.2%
Restricted	8,918	8,473	445	5.3%
Unrestricted	35,237	33,405	1,832	5.5%
Total net assets	<u>80,392</u>	<u>78,045</u>	<u>2,347</u>	3.0%
Total liabilities and net assets	<u>\$ 94,057</u>	<u>\$ 88,177</u>	<u>\$ 5,880</u>	6.7%

As displayed above, total net assets increased to \$80.4 million in 2007, up from \$78.0 million in 2006. The change in net assets resulted primarily from operating gains and investment income.

# JOHNSON MEMORIAL HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

A summary of the Hospital's Statement of Operations and Changes in Net Assets for the years ended December 31, 2007 and 2006 is presented below (in thousands):

	2007	2006	\$ Change	% Change
Revenue				
Net patient service revenue	\$ 66,462	\$ 67,909	\$ (1,448)	-2.1%
Other	8,271	6,475	1,796	27.7%
Total revenue	74,733	74,383	350	0.5%
Expenses				
Salary and benefits	40,748	39,291	1,457	3.7%
Supplies and other	28,546	28,331	215	0.8%
Depreciation and amortization	4,736	4,813	(78)	-1.6%
Total operating expenses	74,031	72,436	1,595	2.2%
Operating income	702	1,947	(1,246)	-64.0%
Non-operating income	1,586	1,463	125	-8.5%
Excess of revenues over expenses	2,289	3,411	(1,121)	-32.9%
Other changes in net assets	58	194	(135)	-69.7%
Change in net assets	\$ 2,347	\$ 3,604	\$ (1,256)	-34.9%

### SOURCES OF REVENUE

During 2007, the Hospital derived substantially all of its revenue from patient services and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

# JOHNSON MEMORIAL HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

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The table below presents the percentages of gross revenue for patient services, by payor, for the years ended December 31, 2007 and 2006, respectively.

<u>Payor Mix</u>	<u>2007</u>	<u>2006</u>
Medicare	49%	43%
Medicaid	6%	7%
Commercial	21%	24%
Blue Cross/Anthem	15%	16%
Self-pay	7%	8%
Other	2%	2%
Total	<u>100%</u>	<u>100%</u>

The Hospital has entered into agreements with third party payers, including government programs and managed care health plans, under which payments for healthcare services provided to patients are based upon predetermined rates or discounts from gross charges. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment.

### OPERATING AND FINANCIAL PERFORMANCE

Overall, the Hospital's financial performance in 2007 was slightly weaker than that experienced in 2006. This section discusses highlights of 2007 operations and changes in activities.

#### (a) Revenue

- Net patient revenues decreased in 2007 compared to 2006 primarily as a result of a decrease in acute inpatient services and surgical services revenues combined with an unfavorable shift in the payer mix statistics resulting in higher contractual allowances. In FY2006, 50% of the Hospital's revenues were attributable to Medicare and Medicaid; in FY2007, 55% of the revenue was comprised of Medicare/Medicaid. Further discussion follows:
  - Acute inpatient volume, as measured in terms of admissions, decreased to 3,464 in 2007 from 3,741 in 2006, or 7.4%.
  - Acute rehabilitation volume, as measured in terms of patient days, decreased to 2,846 in 2007 from 3,222 in 2006, or 11.7%.
  - Long term care (SNF) volume, as measured in terms of patient days, increased to 6,357 up from 5,830 in 2006. This was an increase of 9.0%.

# JOHNSON MEMORIAL HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

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- Overall, there was declining growth experienced in outpatient volume. Gross outpatient charges increased by 4.3% over 2006, which when compared against a 7% price increase indicates a loss in this service sector as well.
- Excluded from net patient revenue are charges for patient services waived under the Hospital's charity policy. Charity care represents unreimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Based on established rates, gross charges of \$1.8 million were waived in 2007, compared to \$1.4 million in 2006.

### (b) Expenses

- Total operating expenses increased \$1.595 million or 2.2% in 2007 primarily from the increase in general inflationary pressures and the addition of new employed anesthesia providers. Further discussion follows:
  - Employee labor expenses increased \$1.46 million or 3.7% over 2006. Supplies and other expenses increased \$215,000 or .8% over 2006. This small increase is mostly attributable to lower volumes.
  - Provision for bad debt expenses increased \$538,000 or 10.8% over 2006, primarily related to the reclassification of certain classes of write-offs to charity care to better reflect appropriate treatment of these specific patient accounts. The combined charity care/bad debt write-offs as a percent of hospital gross patient revenues increased from 4.6% in FY 2006 to 5.0% in FY 2007.
  - Depreciation and amortization expenses decreased slightly over 2006 due to very few new capital assets being placed in service in 2007.

# JOHNSON MEMORIAL HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

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### CAPITAL ASSETS

During 2007, the Hospital's net capital assets increased by \$2.0 million. The below table summarizes the broad categories (in thousands):

	2007	2006	\$ Change	% Change
Land and improvements	\$ 4,338	\$ 4,336	\$ 2	0.1%
Buildings and improvements	49,918	49,790	128	0.3%
Equipment	37,278	36,827	451	1.2%
Total capital assets	91,533	90,953	581	0.6%
Less accumulated depreciation	56,002	52,475	3,527	6.7%
Construction in progress	6,107	1,114	4,993	448.2%
Capital assets - net	<u>\$ 41,639</u>	<u>\$ 39,591</u>	<u>\$ 2,047</u>	5.2%

The increase in capital assets and corresponding accumulated depreciation is attributable to the Hospital's commitment to replace equipment as it becomes obsolete as well as upgrade its facilities and the capabilities of its information systems.

### LONG TERM DEBT

As of December 31, 2007, the Hospital had \$5.4 million in short term and long term notes and bonds, an increase from the \$3.4 million as of December 31, 2006. During the year, there was a \$6 million additional issuance of long-term debt to be used for the financing of the private room renovation project with approximately \$2.7 million of the total \$6 million drawn down as of December 31, 2007. More detailed information about the Hospital's debt position is presented in the Notes to the Combined Financial Statements.

### ECONOMIC FACTORS AND 2008 BUDGET

The Hospital's Board and management considered many factors when establishing the 2008 Budget. Included was the status of the economy, which takes into market factors and other environmental factors such as the following items:

- Population growth of Johnson County, Indiana and the expanding need for services
- Advances in medical equipment and information systems technology and the need to replace obsolete equipment



# JOHNSON MEMORIAL HOSPITAL

## MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED) DECEMBER 31, 2007 AND 2006

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- Decreasing reimbursement from governmental and commercial insurance payers as well as the increasingly unfavorable governmental payer mix the Hospital is experiencing
- Increasing number of uninsured, underinsured and/or indigent patients
- Increasing costs of medical supplies, pharmaceuticals, and medical malpractice insurance
- The increasing need to partner with a tertiary-level Indianapolis hospital(s) for services the Hospital is not capable of implementing on its own
- Increasing awareness and expectations from the public on the quality of services
- Increased competition from niche and physician providers as well as the continued expansion of the major Indianapolis providers of healthcare into the Johnson County market (i.e., St. Francis, Community Health Network and Clarian)

### CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital's Vice President of Finance, Elizabeth A. Hedden, at Johnson Memorial Hospital, P.O. Box 549, Franklin, Indiana 46131.

# JOHNSON MEMORIAL HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

<b>ASSETS</b>		
	2007	2006
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,117,883	\$ 1,411,350
Investments	11,091,894	7,345,512
Assets whose use is limited, current portion	1,108,448	981,890
Patient accounts receivable, net of allowance for uncollectible accounts of \$2,524,000 in 2007 and \$1,671,000 in 2006	11,514,298	14,612,548
Other accounts receivable	1,245,425	859,731
Estimated third-party receivable	-0-	729,807
Inventory and other current assets	2,440,046	2,248,444
Current portion of notes receivable	96,000	96,000
Total current assets	30,613,994	28,285,282
<b>Assets whose use is limited</b>		
Internally designated	19,650,893	18,046,276
Held by trustee for debt service	870,630	764,202
Total assets whose use is limited	20,521,523	18,810,478
Less current portion	1,108,448	981,890
Noncurrent assets whose use is limited	19,413,075	17,828,588
<b>Capital assets</b>		
Land	3,141,963	3,141,963
Depreciable capital assets, net	38,496,546	36,448,876
Total capital assets, net	41,638,509	39,590,839
<b>Other assets</b>		
Foundation assets	1,795,873	1,737,864
Notes receivable, net of current portion	212,971	308,601
Investment in affiliated companies	345,887	364,148
Other assets	36,986	61,521
Total other assets	2,391,717	2,472,134
Total assets	\$ 94,057,295	\$ 88,176,843

See accompanying notes to combined financial statements.

# JOHNSON MEMORIAL HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

### LIABILITIES AND NET ASSETS

	2007	2006
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 2,125,095	\$ 2,610,833
Accrued wages and related liabilities	5,801,827	4,097,194
Estimated third-party settlements	336,778	-0-
Current portion of long term debt	1,108,448	981,890
Total current liabilities	9,372,148	7,689,917
<b>Long term debt, net of current portion</b>		
Capital lease obligations	197,950	42,274
Indiana Health Facility Revenue Bonds	4,095,499	2,400,000
Total long term debt	4,293,449	2,442,274
Total liabilities	13,665,597	10,132,191
<b>Net assets</b>		
Invested in capital assets, net of related debt	36,236,612	36,166,675
Restricted		
For debt service	870,630	764,202
Expendable - funded depreciation	4,736,111	4,492,722
Expendable - other specific purpose	1,515,768	1,478,004
Held by Foundation	1,795,570	1,737,864
Total restricted net assets	8,918,079	8,472,792
Unrestricted	35,237,007	33,405,185
Total net assets	80,391,698	78,044,652
Total liabilities and net assets	\$ 94,057,295	\$ 88,176,843

See accompanying notes to combined financial statements.

# JOHNSON MEMORIAL HOSPITAL

## COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
<b>Revenues</b>		
Net patient service revenue	\$ 66,461,966	\$ 67,908,541
Other revenue	8,271,070	6,474,874
Total revenues	<u>74,733,036</u>	<u>74,383,415</u>
<b>Expenses</b>		
Salaries and wages	32,386,853	31,310,303
Employee benefits	8,361,186	7,980,560
Medical professional fees	623,050	677,524
Other professional fees	6,461,539	6,110,818
Medical supplies and drugs	9,868,588	10,441,174
Other supplies	901,514	856,852
Depreciation and amortization	4,735,572	4,813,369
Insurance	920,996	836,291
Other expenses	9,770,662	9,408,543
Total expenses	<u>74,029,960</u>	<u>72,435,434</u>
Operating income	703,076	1,947,981
<b>Nonoperating revenues (expenses)</b>		
Investment income	1,441,922	1,237,227
Interest expense	(97,599)	(146,284)
Loss on sale of equipment	(45,514)	(66,220)
Other nonoperating income	287,455	437,947
Nonoperating revenues (expenses), net	<u>1,586,264</u>	<u>1,462,670</u>
Excess revenues over expenses	2,289,340	3,410,651
<b>Other changes in net assets</b>		
Change in Foundation net assets	57,706	413,798
Intergovernmental transfer to Johnson County	-0-	(220,000)
Change in net assets	<u>2,347,046</u>	<u>3,604,449</u>
<b>Net assets</b>		
Beginning of year	78,044,652	74,440,203
End of year	<u>\$ 80,391,698</u>	<u>\$ 78,044,652</u>

See accompanying notes to combined financial statements.

# JOHNSON MEMORIAL HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
<b>Operating activities</b>		
Cash received from patient services	\$ 70,626,801	\$ 65,371,389
Cash paid for salaries, wages and benefits	(39,043,406)	(40,159,810)
Cash paid to vendors and suppliers	(29,630,665)	(28,021,879)
Other receipts, net	8,258,878	6,127,296
Net cash flows from operating activities	10,211,608	3,316,996
<b>Capital and related financing activities</b>		
Receipts on notes receivable, net	95,630	48,880
Proceeds from long-term debt	2,744,249	-0-
Payments on long term debt, net	(1,029,638)	(1,911,085)
Interest on long term debt	(97,599)	(146,284)
Loss on sale of property and equipment	(45,514)	(66,220)
Purchases of capital assets	(6,583,928)	(3,217,214)
Proceeds from sale of capital assets	42,829	2,081
Net cash flows from capital and related financing activities	(4,873,971)	(5,289,842)
<b>Investing activities</b>		
Other nonoperating income	287,455	437,947
Interest on investments	1,441,922	1,237,227
Change in Foundation net assets	57,706	413,798
Other changes in investments	(3,707,142)	1,414,890
Other changes in assets whose use is limited	(1,626,313)	(1,976,456)
Net cash flows from investing activities	(3,546,372)	1,527,406
Net change in cash and cash equivalents	1,791,265	(445,440)
<b>Cash and cash equivalents</b>		
Beginning of year	3,344,620	3,790,060
End of year	<u>\$ 5,135,885</u>	<u>\$ 3,344,620</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents		
In current assets	\$ 3,117,883	\$ 1,411,350
In assets whose use is limited	2,018,002	1,933,270
Total cash and cash equivalents	<u>\$ 5,135,885</u>	<u>\$ 3,344,620</u>

See accompanying notes to combined financial statements.

# JOHNSON MEMORIAL HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<b>Reconciliation of operating income to net cash from operating activities</b>		
Operating income	\$ 703,076	\$ 1,947,981
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	4,735,572	4,813,369
Bad debts	5,482,788	4,945,180
Changes in operating assets and liabilities		
Patient accounts receivable	(2,384,538)	(6,071,783)
Other accounts receivable	(385,694)	(252,573)
Inventory and other current assets	(191,602)	(82,447)
Other assets	24,535	51,355
Change in foundation assets	(58,009)	(413,798)
Accounts payable and accrued expenses	(486,041)	659,208
Accrued wages and related liabilities	1,704,633	(868,947)
Estimated third-party settlements	1,066,585	(1,410,549)
Change in foundation liabilities	303	-0-
Net cash from operating activities	<u>\$ 10,211,608</u>	<u>\$ 3,316,996</u>
<b>Non Cash Activities</b>		
Property acquired through capital lease	\$ 263,122	\$ -0-

See accompanying notes to combined financial statements.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

Johnson Memorial Hospital (Hospital) is an acute-care hospital located in Franklin, Indiana, organized for the purpose of providing healthcare services to the residents of Johnson County and the surrounding communities. The Hospital is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care, skilled nursing and intermediate care and emergency care.

The Board of County Commissioners of Johnson County appoints the Governing Board of the Hospital. The Hospital is considered a component unit of Johnson County.

Accounting principles generally accepted in the United States require that these combined financial statements present the Hospital and its significant component units, collectively referred to as the "primary government." The blended component unit discussed below is included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities are in substance part of the primary government's operations and exist solely to provide services for the primary government; data from these units is combined with data of the primary government.

#### Blended Component Unit

The accompanying combined financial statements include the accounts of Johnson County Health Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of the Hospital. The separate financial statements of the Foundation may be obtained through contacting their office as follows:

Johnson County Health Foundation, Inc.  
1101 W. Jefferson St., Ste. V  
Franklin, IN 46131

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

### Cash and Cash Equivalents

Cash and cash equivalents include deposits and investments in highly liquid debt instruments with an original maturity date of three months or less from date of purchase.

### Investments

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at fair value.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Mutual funds are reported at fair value based on the fund's market price. Money market investments that mature within one year or less at the date of their acquisition are reported at fair value. Other money market investments are reported at fair value.



# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenue in the combined statements of revenues, expenses and changes in net assets.

### Patient Accounts Receivable and Patient Service Revenues

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2005 with differences reflected as deductions from revenue in 2007. Amounts from unresolved cost reports for 2006 through 2007 are reflected in estimated third-party settlements on the combined balance sheets. During 2007 and 2006, the Hospital recognized to income approximately \$96,383 and \$681,000, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

### Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventories at year-end consist of the following:

	<u>2007</u>	<u>2006</u>
Medical supplies and other	\$1,004,763	\$1,006,648
Pharmaceutical	459,352	358,838
	<u>\$1,464,115</u>	<u>\$1,365,486</u>

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### Assets Whose Use is Limited

Assets whose use is limited are stated at fair market value in the combined financial statements. These assets include investments designated by the Hospital Board for internal purposes, investments restricted by donors for a specific purpose and investments held by trustees for debt service. These investments consist primarily of cash and cash equivalents, certificates of deposit, US government securities, mutual funds and corporate stock. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenue (expense) in the combined statements of revenues, expenses and changes in net assets.

### Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$500 and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of useful lives in computing depreciation is as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	15 years
Buildings and improvements	4-50 years
Equipment	5-15 years

### Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors or donors outside the Hospital, including amounts deposited with trustees as required by revenue bond indentures and net assets held by the Foundation. Unrestricted net assets are the remaining net assets that do not meet the definition of net assets invested in capital assets net of related debt or restricted net assets.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### Combined Statements of Revenues, Expenses and Changes in Net Assets

The Hospital's combined statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions such as investment activities are reported as nonoperating gains or losses.

### Combined Statements of Cash Flows

For the purposes of the combined statement of cash flows, cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less. Cash paid for interest in 2007 and 2006 was \$97,599 and \$146,284, respectively. Cash paid for capitalized interest was \$36,549 and \$-0- for 2007 and 2006, respectively.

### Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

### Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

### Bond Issuance Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issuance costs are amortized utilizing the straight-line method. Bond issue costs, net of accumulated amortization as of December 31, 2007 and 2006 were \$36,986 and \$61,521, respectively.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). Johnson County Health Foundation, Inc. is a 501(c)(3) not-for-profit organization.

### Investments in Affiliates

The Hospital owns 50% of Johnson County Health Network, Inc, a Physician Hospital Organization. The Hospital also owns 47% of JMH Surgical Management Company, which operates and manages the surgery department. During 2007, the Hospital purchased a 20% interest in St. Francis Imaging Center, LLC, which provides multiple diagnostic imaging services on an outpatient basis. The investments are recorded on the equity method of accounting in the Hospital's combined financial statements. The Hospital's investment in affiliated companies is included in the other assets category in the combined balance sheets.

### Compensated Absences

Hospital exempt employees earn Paid Time Off (PTO) at the rate of twenty-three days to thirty-six days per year based upon the number of years of service. Hospital non-exempt employees earn PTO at the rate of fourteen days to thirty-four days per year based upon the number of years of service. PTO is awarded and becomes earned on the first day of the pay period following the first six months of employment and then annually thereafter on the first day of the pay period following the employee's anniversary date for PTO accrual. The maximum PTO balance allowed at any given time will be four hundred twenty (420) hours. Unused PTO time, up to forty (40) hours total, in excess of the four hundred and twenty (420) hour maximum may be sold back to the hospital at the employee's anniversary for PTO renewal. An employee will not be able to sell back more than forty (40) hours, nor will they be allowed to bring their PTO maximum below four hundred twenty hours (420) when selling back PTO hours. PTO hours in excess of four hundred twenty (420) hours that are not sold back to the hospital will be lost. Any earned PTO hours not taken, to a maximum of four hundred twenty (420) hours, will be paid to terminated employees with the employee's final paycheck. A terminated employee loses all rights to PTO hours accrued since the last anniversary date. PTO is accrued and reported as a liability in the combined balance sheets.

### Reclassifications

Certain amounts from the 2006 financial statements have been reclassified to conform to the current year presentation.

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# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with the Hospital's legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

### Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

## 2. EDINBURGH/TRAFALGAR FAMILY HEALTH CENTER, INC.

The Hospital has a note receivable due from Edinburgh/Trafalgar Family Health Center. The note is noninterest bearing and unsecured due in monthly installments of \$8,000 through 2010. The outstanding amount due on the note as of December 31, 2007 and 2006 was \$308,971 and \$404,601, respectively.

## 3. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

### Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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The Hospital's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization which is under contract with the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

### Medicaid

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

The Hospital is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$2,263,000 and \$1,630,000 during the years ended December 31, 2007 and 2006, respectively. These programs are administered by the state, but rely on Federal funding.

### Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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The following is a summary of net patient service revenue for 2007 and 2006:

	2007	2006
Patient service revenue		
Inpatient	\$ 57,047,454	\$ 56,193,527
Outpatient	83,828,296	80,357,190
Gross patient service revenue	140,875,750	136,550,717
Deductions from revenue		
Contractual allowances	67,091,140	62,308,522
Charity care	1,839,856	1,388,474
Bad debts	5,482,788	4,945,180
Total deductions from revenue	74,413,784	68,642,176
Net patient service revenue	\$ 66,461,966	\$ 67,908,541

### 4. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The charity care provided during 2007 and 2006 was 1,839,856 and \$1,388,474, respectively.

### 5. ASSETS WHOSE USE IS LIMITED

The classification "Assets whose use is limited" includes:

Internally Designated:

Funded Depreciation – Amounts transferred by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by IC 16-22-3-13.

Capital Improvement – Amounts designated by the Board of Trustees for capital purchases and improvements.

Board Designated – Amounts designated by the Board of Trustees for other specific purposes.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Funds Held by Trustee for Debt Service – Hospital Association funds deposited with a trustee and limited to use in accordance with the requirements of a trust indenture.

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited includes the following as of December 31:

	2007	2006
Internally designated		
Funded depreciation		
Cash and cash equivalents	\$ 1,991,197	\$ 1,439,635
Investments	2,514,781	2,278,583
Accrued interest receivable	7,180	5,409
Total funded depreciation	<u>4,513,158</u>	<u>3,723,627</u>
Capital improvement		
Cash and cash equivalents	17,733	24,584
Investments	8,707,370	8,171,797
Accrued interest receivable	160,755	155,543
Total capital improvements	<u>8,885,858</u>	<u>8,351,924</u>
Board designation		
Cash and cash equivalents	538,442	504,849
Investments	5,659,316	5,427,983
Accrued interest receivable	54,119	37,893
Total board designated funds	<u>6,251,877</u>	<u>5,970,725</u>
Total internally designated	19,650,893	18,046,276
Held by trustee for debt service		
Cash and cash equivalents	<u>870,630</u>	<u>764,202</u>
Total assets limited as to use	<u>\$ 20,521,523</u>	<u>\$ 18,810,478</u>

Investments include certificates of deposit, mutual funds, marketable equity securities and U.S. government obligations.



# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### 6. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depositary Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents and U.S. Government securities. Market value approximated cost as of December 31, 2007 and 2006.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2007 and 2006, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

December 31, 2007

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government Securities	\$ 4,647,877	\$ 3,112,947	\$ 1,534,930	\$ -0-	\$ -0-
Certificates of Deposit	21,615,679	21,615,679	-0-	-0-	-0-
Mutual funds - equities	4,528,151	4,528,151	-0-	-0-	-0-
Donated corporate stock	821,710	821,710	-0-	-0-	-0-
	<u>\$ 31,613,417</u>	<u>\$ 30,078,487</u>	<u>\$ 1,534,930</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

December 31, 2006

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government Securities	\$ 4,441,710	\$ 3,592,759	\$ 848,951	\$ -0-	\$ -0-
Certificates of Deposit	16,775,627	16,775,627	-0-	-0-	-0-
Mutual funds - equities	4,102,380	4,102,380	-0-	-0-	-0-
Donated corporate stock	836,273	836,273	-0-	-0-	-0-
	<u>\$ 26,155,990</u>	<u>\$ 25,307,039</u>	<u>\$ 848,951</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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Interest rate risk - The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk - Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31, 2007 and 2006:

	2007	2006
Carrying amount		
Deposits	\$ 3,117,883	\$ 1,411,350
Investments	31,613,417	26,155,990
	<u>\$ 34,731,300</u>	<u>\$ 27,567,340</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 3,117,883	\$ 1,411,350
Investments	11,091,894	7,345,512
Internally designated	19,650,893	18,046,276
Held by trustee for debt service	870,630	764,202
	<u>\$ 34,731,300</u>	<u>\$ 27,567,340</u>

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### 7. RESTRICTED NET ASSETS

Restricted net assets are categorized as follows as of December 31, 2007 and 2006:

	2007	2006
Held by trustee for debt service	\$ 870,630	\$ 764,202
Cumulative building fund - funded depreciation	4,736,111	4,492,722
Other specific purpose - gift fund	1,515,768	1,478,004
Primary government	7,122,509	6,734,928
Johnson County Health Foundation	1,795,570	1,737,864
Total restricted funds	<u>\$ 8,918,079</u>	<u>\$ 8,472,792</u>

### 8. CAPITAL ASSETS

#### Capital Assets

A summary of capital assets, including assets under capital leases, as of December 31, 2007 and 2006, follows:

	December 31, 2006	Additions	Retirements	Transfers	December 31, 2007
Land	\$ 3,141,963	\$ -0-	\$ -0-	\$ -0-	\$ 3,141,963
Land improvements	1,193,752	-0-	-0-	2,200	1,195,952
Buildings and improvements	49,788,627	77,823	-0-	51,105	49,917,555
Equipment	36,827,227	861,559	(1,272,662)	861,762	37,277,886
Construction in progress	1,113,965	5,907,793	-0-	(915,067)	6,106,691
Total capital assets	<u>92,065,534</u>	<u>6,847,175</u>	<u>(1,272,662)</u>	<u>-0-</u>	<u>97,640,047</u>
Less accumulated depreciation:					
Land improvements	(879,691)	(46,324)	-0-	-0-	(926,015)
Buildings and improvements	(24,849,795)	(1,717,611)	-0-	-0-	(26,567,406)
Equipment	(26,745,209)	(2,947,227)	1,184,319	-0-	(28,508,117)
Total accumulated depreciation	<u>(52,474,695)</u>	<u>(4,711,162)</u>	<u>1,184,319</u>	<u>-0-</u>	<u>(56,001,538)</u>
Capital assets, net	<u>\$ 39,590,839</u>	<u>\$ 2,136,013</u>	<u>\$ (88,343)</u>	<u>\$ -0-</u>	<u>\$ 41,638,509</u>

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

	December 31, 2005	Additions	Retirements	Transfers	December 31, 2006
Land	\$ 3,141,963	\$ -0-	\$ -0-	\$ -0-	\$ 3,141,963
Land improvements	1,169,279	24,473	-0-	-0-	1,193,752
Buildings and improvements	50,333,888	80,855	(958,993)	332,877	49,788,627
Equipment	35,368,261	769,110	(413,224)	1,103,080	36,827,227
Construction in progress	207,146	2,342,776	-0-	(1,435,957)	1,113,965
Total capital assets	90,220,537	3,217,214	(1,372,217)	-0-	92,065,534
Less accumulated depreciation:					
Land improvements	(826,217)	(53,474)	-0-	-0-	(879,691)
Buildings and improvements	(24,020,947)	(1,727,451)	898,603	-0-	(24,849,795)
Equipment	(24,169,433)	(2,982,230)	406,454	-0-	(26,745,209)
Total accumulated depreciation	(49,016,597)	(4,763,155)	1,305,057	-0-	(52,474,695)
Capital assets, net	\$ 41,203,940	\$ (1,545,941)	\$ (2,677,274)	\$ -0-	\$ 39,590,839

Depreciation expense for 2007 and 2006 amounted to \$4,711,162 and \$4,763,155, respectively.

### Assets Under Capital Lease

The assets acquired through capital leases still in effect are as follows:

	2007	2006
Equipment	\$ 213,889	\$ 240,626
Less accumulated depreciation	7,309	113,229
	<u>\$ 206,580</u>	<u>\$ 127,397</u>

## 9. INVESTMENT IN AFFILIATED COMPANIES

The Hospital owns 50% of Johnson County Health Network, Inc., a Physician Hospital Organization. Additionally, the Hospital owns 47% of JMH Surgical Management Company, which operates and manages the surgery department. The investments are recorded on the equity method of accounting in the Hospital's combined financial statements.

During 2007, the Hospital purchased a 20% interest (20 units) for \$70,000 in St. Francis Imaging Center, LLC, which provides multiple diagnostic imaging services on an outpatient basis.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Summarized financial information as of December 31, 2007 and 2006 and the years then ended from the unaudited financial statements of Johnson County Health Network and JMH Surgical Management Company follows:

	Johnson County Health Network		JMH Surgical Management Company	
	2007	2006	2007	2006
Cash and cash equivalents	\$ 84,775	\$ 58,287	\$ 395,772	\$ 428,290
Due from Hospital	79,071	72,821	92,685	261,091
Other assets	-0-	36,560	-0-	-0-
Total assets	<u>\$ 163,846</u>	<u>\$ 167,668</u>	<u>\$ 488,457</u>	<u>\$ 689,381</u>
Liabilities	\$ 50,249	\$ 49,663	\$ 102,957	\$ 303,881
Equity	113,597	118,005	385,500	385,500
Total liabilities and equity	<u>\$ 163,846</u>	<u>\$ 167,668</u>	<u>\$ 488,457</u>	<u>\$ 689,381</u>
Operating revenue	\$ 28,420	\$ 26,969	\$ 266,000	\$ 480,000
Nonoperating revenue	-0-	-0-	10,396	8,778
Other expenses	(32,829)	(14,102)	(134,888)	(169,812)
Net income	<u>\$ (4,409)</u>	<u>\$ 12,867</u>	<u>\$ 141,508</u>	<u>\$ 318,966</u>
Dividends Paid	\$ -0-	\$ -0-	\$ 141,508	\$ 317,283

### 10. LONG TERM DEBT

A summary of long term debt as of December 31, 2007 and 2006 is as follows:

- The \$5,300,000, 1991 Capital Access Designation Pool Revenue Bonds are due in installments of \$500,000, plus variable interest due August 1, 2006. Secured by a letter of credit in the amount of approximately \$500,000 that expired in August 2006. The total payment for the 1991 Bonds was made by the Hospital. The 1991 bonds were paid off in 2006.
- The \$3,900,000, 1997 Variable Rate Demand Revenue Bonds are due in monthly installments of \$37,400 to \$45,800, plus variable interest due December 20, 2006. Secured by a letter of credit of approximately \$533,000 that expired in December 2006. The total payment for the 1997 Bonds was made by the Hospital. The 1997 bonds were paid off in 2006.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

- The \$2,200,000, 1998 Variable Rate Demand Revenue Bonds are due in installments of \$200,000 to \$300,000, plus variable interest (4.9% at December 31, 2007) through April 1, 2008. Secured by a letter of credit of approximately \$305,918 expiring on April 1, 2008.
- The \$6,000,000, 2000 Variable Rate Demand Revenue Bonds are due in installments of \$600,000 to \$700,000, plus variable interest (3.3% at December 31, 2007) through January 1, 2010. Secured by a letter of credit of approximately \$2,139,000 expiring January 16, 2010.
- The \$6,000,000, 1985A Pool Borrowing is available as projects are completed and approved for payment. At December 31, 2007 funds in the amount of \$2,744,249 has been advanced to the Hospital. Monthly principal payments begin on October 20, 2008 in the amount of \$16,250 for 12 months. Every subsequent October the principal payments increase as follows given that the entire \$6,000,000 is drawn: \$20,417 in 2009, \$80,417 in 2010, \$86,250 in 2011, \$92,083 in 2012, \$98,750 in 2013, and \$105,833 in 2014. As of December 31, 2007, the variable interest rate was 8.6%. The borrowing is secured by a letter of credit in the amount of \$2,744,249 up to a potential \$6,000,000 expiring on April 16, 2012.
- The capital lease obligation with imputed interest of 6.5% executed for property and equipment are due in monthly installments plus interest of \$6,224.

The bonds require the Hospital to maintain certain financial debt coverage ratios. As of December 31, 2007 and 2006, the Hospital was in compliance with the debt coverage ratios.

The following represents a progression for long term debt for 2007 and 2006:

Revenue bonds:	December 31, 2006	Additional Borrowings	Payments	December 31, 2007	Current Portion
Indiana Health Facility Financing Authority (IHFFA):					
\$2,200,000 1998 Demand Bonds	\$ 600,000	\$ -0-	\$ (300,000)	\$ 300,000	\$ 300,000
\$6,000,000 2000 Demand Bonds	2,700,000	-0-	(600,000)	2,100,000	700,000
\$6,000,000 1985A Pool Borrowing	-0-	2,744,249	-0-	2,744,249	48,750
Loans payable:					
Capital lease obligations	124,164	257,648	(124,164)	257,648	59,698
Total long term debt	<u>\$ 3,424,164</u>	<u>\$ 3,001,897</u>	<u>\$ (1,024,164)</u>	<u>\$ 5,401,897</u>	<u>\$ 1,108,448</u>

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Revenue bonds:	December 31, 2005	Additional Borrowings	Payments	December 31, 2006	Current Portion
Indiana Health Facility Financing Authority (IHFFA):					
\$5,300,000 1991 Pooled Bonds	\$ 500,000	\$ -0-	\$ (500,000)	\$ -0-	\$ -0-
\$3,900,000 1997 Demand Bonds	532,618	-0-	(532,618)	-0-	-0-
\$2,200,000 1998 Demand Bonds	800,000	-0-	(200,000)	600,000	300,000
\$6,000,000 2000 Demand Bonds	3,300,000	-0-	(600,000)	2,700,000	600,000
Loans payable:					
Capital lease obligations	202,631	-0-	(78,467)	124,164	81,890
Total long term debt	<u>\$ 5,335,249</u>	<u>\$ -0-</u>	<u>\$ (1,911,085)</u>	<u>\$ 3,424,164</u>	<u>\$ 981,890</u>

Scheduled principal and interest repayments on long term debt and payments on capital lease obligations for the years ending after December 31, 2007 are as follows:

Years Ending December 31,	Principal	Interest	Total Debt Payments
2008	\$ 1,108,448	\$ 134,424	\$ 1,242,872
2009	971,196	239,085	1,210,281
2010	1,192,965	199,360	1,392,325
2011	1,048,789	144,410	1,193,199
2012	1,052,500	75,635	1,128,135
Thereafter	27,999	1,960	29,959
	<u>\$ 5,401,897</u>	<u>\$ 794,874</u>	<u>\$ 6,196,771</u>

## 11. PENSION PLAN

### Plan Description

The Hospital has a defined benefit pension plan administered by National City Bank as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members' contributions are not required by the plan agreement. The Hospital is required to contribute at an actuarially determined rate. The current rate is 1% of annual covered payroll.

### Annual Pension Cost and Net Pension Obligation

The Hospital's annual pension cost and net pension obligations for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Annual required contribution	\$ 1,352,218	\$ 1,206,229
Interest on net pension obligation	(46,277)	(51,253)
Adjustment to annual required contribution	65,839	67,225
Annual pension cost	1,371,780	1,222,201
Contributions made	390,000	1,160,000
Change in net pension obligation	981,780	62,201
Net pension (asset) obligation, beginning of year	(578,467)	(640,668)
Net pension (asset) obligation, end of year	\$ 403,313	\$ (578,467)

Contribution rate - Hospital	1%
Actuarial valuation date	3/1/2007
Actuarial cost method	Aggregate Cost
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Actuarial/Market value

### Actuarial Assumptions

Investment rate of return	8.0%
Projected future salary increase:	
Total	4.5%
Attributed to inflation	3.0%
Attributed to Merit/Seniority	4.5%
Cost-of-living adjustments	1.5%



# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Three Year Trend Information			
Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2/28/2005	\$ 933,674	89%	\$ (640,668)
2/28/2006	\$ 1,222,201	96%	\$ (578,467)
2/28/2007	\$ 1,371,780	29%	\$ 403,313

### Plan Termination

During 2007, the Hospital elected to terminate the defined benefit plan effective December 31, 2007 and replace it with a defined contribution plan effective January 1, 2008. The estimated plan assets approximate the present value of plan benefits on a termination basis as of December 31, 2007.

## 12. RENTAL EXPENSE

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating as incurred. Total rent expense for 2007 and 2006 was \$1,892,959 and \$1,827,645, respectively.

## 13. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third party payors at December 31, 2007 and 2006 was as follows:

	2007	2006
Medicare	36%	42%
Medicaid	8%	12%
Blue Cross	9%	8%
Other third party payors	18%	18%
Self-pay	29%	20%
	<u>100%</u>	<u>100%</u>

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 14. BLENDED COMPONENT UNIT

The accompanying combined financial statements of the primary government include the blended component unit accounts of Johnson County Health Foundation, Inc. (Foundation), a separate not-for-profit entity organized to support the operations of the Hospital.

The following is financial summary of the Foundation as of and for the years ended December 31, 2007 and 2006:

	2007	2006
Total assets - primarily investments	\$ 1,795,873	\$ 1,737,864
Liabilities	\$ 303	\$ -0-
Unrestricted net assets	1,149,168	1,137,621
Restricted net assets	646,402	600,243
Total net assets	1,795,570	1,737,864
Total liabilities and net assets	\$ 1,795,873	\$ 1,737,864
Operating revenue	\$ 3,529	\$ 6,336
Nonoperating revenue	124,219	507,388
Other expenses	(70,042)	(99,926)
Change in net assets	57,706	413,798
Beginning net assets	1,737,864	1,324,066
Ending net assets	\$ 1,795,570	\$ 1,737,864

### 15. RISK MANAGEMENT

#### Medical Benefits to Employees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the General Fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$300,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

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Changes in balance of claim liabilities during the past two years are as follows:

	2007	2006
Unpaid claims, beginning of year	\$ 568,000	\$ 525,000
Incurred claims and changes in estimates	3,726,334	4,127,338
Claim payments	(3,670,334)	(4,084,338)
Unpaid claims, end of year	<u>\$ 624,000</u>	<u>\$ 568,000</u>